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PAGE PETROLEUM LTD
1975 annual report



PAGE PETROLEUM LTD.

Incorporated in Alberta, Canada

OFFICERS

LAWTON L. CLARK, President
C. DEREK GOULD, Vice President
BRIAN G. McCOMBE, Secretary

DIRECTORS

LAWTON L. CLARK
President, Page Petroleum Ltd.
Amarillo, Texas
C. DEREK GOULD
Vice President, Page Petroleum Ltd.
Calgary, Alberta
HARRY A. IRVING
President, Irving Industries
(Irving Wire Products Division) Ltd.
Calgary, Alberta
BRIAN G. McCOMBE
Barrister and Solicitor,
McCombe, Cameron & Cormie
Calgary, Alberta

CONTROLLER

M. J. OHARA

CAPITALIZATION

Authorized 5,000,000 common shares,
No Par Value
Issued Capital — 1,408,486 shares

REGISTERED OFFICE

200 Bradie Building
630 - 6th Avenue South West
Calgary, Alberta
T2P 0S8

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company
Calgary and Toronto

AUDITORS

Collins Barrow
Second Floor, Pacific 66 Plaza
700 - 6th Avenue South West
Calgary, Alberta
T2P 0T8

LEGAL COUNSEL

McCombe, Cameron & Cormie
901, 441 - 5th Avenue South West
Calgary, Alberta
T2P 2V1
Stubbeman, McRae, Sealy, Laughlin & Browder
Midland Savings Building
P.O. Box 1540
Midland, Texas 79701

BANKING

The Canadian Imperial Bank of Commerce
309 - 8th Avenue South West
Calgary, Alberta
T2P 2P2

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Symbol "PGE"

SUBSIDIARIES

Page Petroleum Inc.
Incorporated in Delaware, U.S.A.
Page Petroleum (U.K.) Limited
Incorporated in the United Kingdom
Leaf Petroleums Limited
Incorporated in Alberta, Canada

CORPORATE PROFILE

Page Petroleum Ltd. was incorporated in Alberta on August 31, 1971, following the amalgamation of Berkley Oil and Gas Ltd. and Canadian Fortune Oil Ltd.

The Company has continued and expanded the operations of its predecessor companies, acquiring oil and gas reserves through exploration, development and purchase. Its income derives mainly from oil and gas production and the sale of interests in exploration projects. Page has offices in Calgary, Alberta and Amarillo, Texas.

Page has traditionally operated primarily in Alberta, although in 1973 the Company expanded its operations into the United States, and since 1971 has been relatively active in the United Kingdom and surrounding waters. Page's principal producing properties are in the Mit-sue field of Alberta and the Spraberry trend of West Texas.

Page's 1,408,486 outstanding shares are held by 1,189 registered shareholders. A total of 997 Canadian individuals and corporations hold 67% of the shares. The Company has \$436,-000 of convertible debentures outstanding owned entirely by Canadian individuals and corporations. If converted before August 1, 1977, these debentures will result in 174,400 additional shares. To date, the Company has declared no dividends, having retained all earnings for exploration and development.

In March of 1976, Mr. George W. Oughtred resigned as a Director of the Company. On behalf of the shareholders, we wish to express our sincere appreciation for his valued services and counsel. We wish Mr. Oughtred every success in his new venture as President of Triarch Resource Capital Corporation Ltd., Toronto, Ontario.

We are pleased to welcome Mr. Harry A. Irving to the Board of Directors. Mr. Irving, a resident of Calgary, is President of Irving Industries (Irving Wire Products Division) Ltd.

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FINANCIAL AND OPERATING HIGHLIGHTS

	1975	1974	Increase (Decrease) Per Cent
FINANCIAL			
Gross income	\$ 823,894	\$ 673,913	22.3
Sales of Oil and Gas	\$ 756,923	\$ 526,117	43.9
Drilling Arrangements	\$ 52,186	\$ 139,069	(62.5)
Total Expenses	\$ 661,581	\$ 555,204	19.2
Net Income	\$ 157,135	\$ 74,892	109.8
Per Common Share	\$.11	\$.05	
Funds Generated from Operations	\$ 505,017	\$ 351,523	43.7
Additions to Property and Equipment	\$1,105,578	\$ 795,850	38.9
Long Term Debt	\$1,846,233	\$1,516,300	21.8
Working Capital	\$ 192,324	\$ 43,168	345.5
Shareholders' Equity	\$1,664,765	\$1,507,630	10.4
Common shares outstanding	1,408,486	1,408,486	
Number of shareholders	1,189	1,217	
OPERATING			
PRODUCTION — gross (before royalties)			
Crude Oil — barrels	144,186	141,369	2.0
Per Day	395	387	
Natural Gas — mcf	190,563	103,000	85.0
Per Day	522	282	
DRILLING ACTIVITY			
Gross Wells Drilled	60	19	
Net Wells Productive	3.3	0.8	
Net Wells Dry	3.3	3.0	
RESERVES — gross proven and probable			
Crude Oil — barrels	4,352,000	3,382,000	28.7
Natural Gas — mcf	4,961,000	4,510,000	10.0
LAND HOLDINGS			
Gross Acres	3,445,273	5,137,878	(32.9)
Net Acres	316,058	621,785	(49.2)

RANGE OF MARKET PRICES ON COMMON SHARES:

	Year	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
		High	Low	High	Low	High	Low	High	Low
Toronto	1973	3.50	2.60	2.40	2.00	3.90	2.40	4.20	3.30
Stock Exchange	1974	3.90	3.40	3.45	1.60	1.98	0.95	1.60	0.90
	1975	2.05	1.00	2.00	1.50	1.80	1.55	1.65	1.26

TO THE SHAREHOLDERS:

We are pleased to present the fifth annual report for Page Petroleum Ltd. The Company is incorporated in Alberta and trades on the Toronto Stock Exchange and on the over-the-counter market in the United States. It operates in the United States through Page Petroleum Inc. and in the United Kingdom through Page Petroleum (U.K.) Limited, both wholly owned subsidiaries.

Operating and financial results for 1975 showed improvement in nearly all categories. Gross operating income increased 22% to \$823,894 from \$673,913. Funds generated from operations were \$505,017 compared with \$351,523, an increase of 44%. The Company's net income amounted to \$157,135 or eleven cents per share compared with five cents per share in 1974. Net oil and gas income increased 44% to \$756,923 from \$526,117. U.S. oil and gas income has become increasingly significant, amounting to approximately 28% of net oil and gas revenue.

Page participated in the drilling of 60 wells during 1975. Of these, 45 were completed as oil producers and two as gas wells. A total of 43 development wells were completed in the Spraberry trend in Reagan and Irion Counties, Texas. Page has a 4.375% working interest in these wells, which, after payout, will increase to 6%, or the equivalent of 2.6 net wells.

In the Boundary Lake area, Page and partners followed up a prior abandonment with a significant oil discovery. Three development wells have now been drilled. The Company owns a 25% interest in 2,080 acres and a 12½% interest in 320 acres of leasehold on this prospect. Further details will be given in our first quarter interim report.

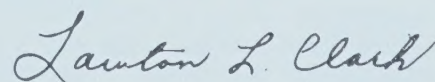
At Morrin, in east central Alberta, Page participated in a potentially significant Basal Quartz oil discovery. The prospect also has Glauconitic gas possibilities. Page and partners will drill at least one additional well on the prospect during 1976. Page has a 25% interest in 5,760 lease acres and a 40% interest in 640 acres.

During the year, the deepest exploratory well in England was drilled on a 213,000-acre licence owned by Page. The well, Shell Page Cooles Farm #1 was abandoned at a total depth of 11,525 feet. Further seismic work is planned in the immediate vicinity. In the mid North Sea, extensive seismic surveys indicate the presence of two attractive anomalies on the Premier Group's licences in Block 29/8b and 29/9b. A well is planned for 1976 drilling; however, Page will probably elect to negotiate a farmout of its 3.6% interest.

Page formed two Limited Partnerships during the year which together spent approximately \$1,300,000 in drilling in the U.S. and Canada. The above mentioned Spraberry wells were drilled under one Partnership while the other Partnership drilled eight exploratory and step-out wells in Alberta. This drilling resulted in a potential dual gas well (Basal Quartz and Viking) at Morinville near Edmonton and a Glauconitic gas well at Enchant in south central Alberta. Page has a working interest of approximately 45% in these wells.

We anticipate that 1976 will be a year of real growth for Page. Revenue from new wells will add substantially to income, especially during the latter part of the year. Development expenditures will be met by additional borrowing which has been tentatively arranged. An increasing accent will be placed on exploration in the U.S. where we are better able to attract outside drilling dollars. We are considering several prospects in West Texas for a summer or fall drilling program.

Submitted on behalf of the Board of Directors:



April 6, 1976

President

EXPLORATION AND DEVELOPMENT

During 1975, Page participated in a total of 60 wells. Of these, 13 were drilled in Canada, 46 in the United States and one in England. A total of 45 were completed as oil producers and two as gas wells.

WESTERN CANADA

Exploration and development drilling was confined to Alberta. Of the 13 wells drilled, two were completed as oil wells and one as a gas well. Discoveries at Morrin and Boundary Lake provided areas for further development. A successful Glauconitic gas well was drilled in the Enchant field in the south central part of the province. An unsuccessful follow-up well at Clear River in Northern Alberta has significantly reduced the potential size of this gas field, discovered by Page and others in 1974. In February, 1976, a potential dual zone (Basal Quartz and Viking) gas well was drilled at Morinville near Edmonton.

Early in 1975, Page was successful in buying leases on several promising geological prospects. Later in the year, land prices increased greatly, and as a result we were unsuccessful in most of the later sales.

Golden Spike, Alberta

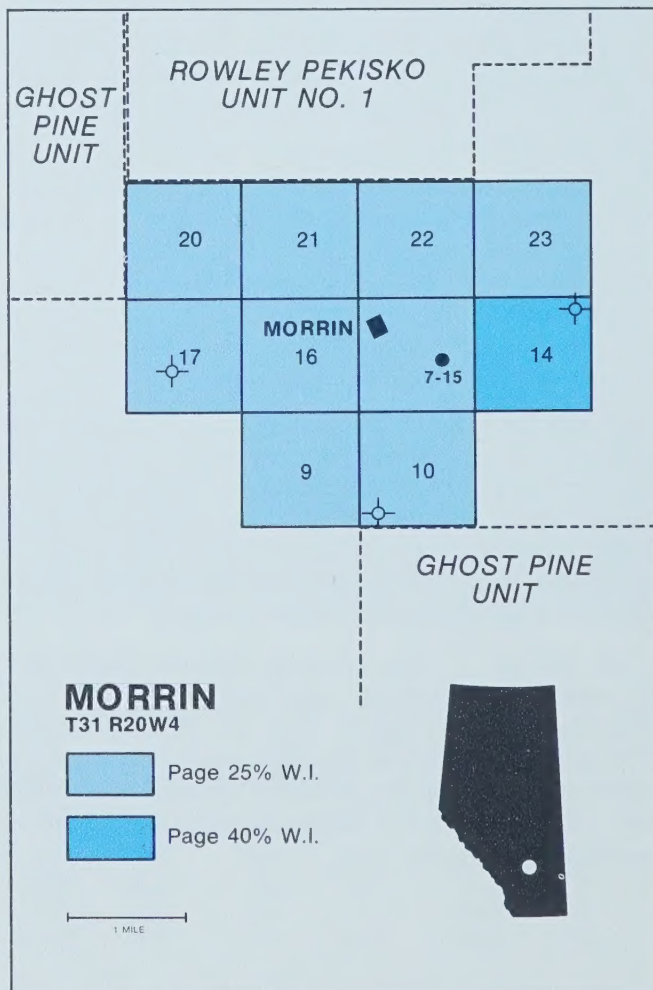
Page has a 45% interest in the Golden Spike D2-B Pool. Production from this old Devonian oil field has been restricted over the years by the presence of a sour gas cap. In late 1975, Page, as operator, built a plant to inject the sour gas back into the producing formation. Studies by consulting engineers indicate that the sour gas problem should be eliminated within two years and that the project should recover 160,000 barrels of oil after royalty net to Page's interest.

Morrin, Alberta

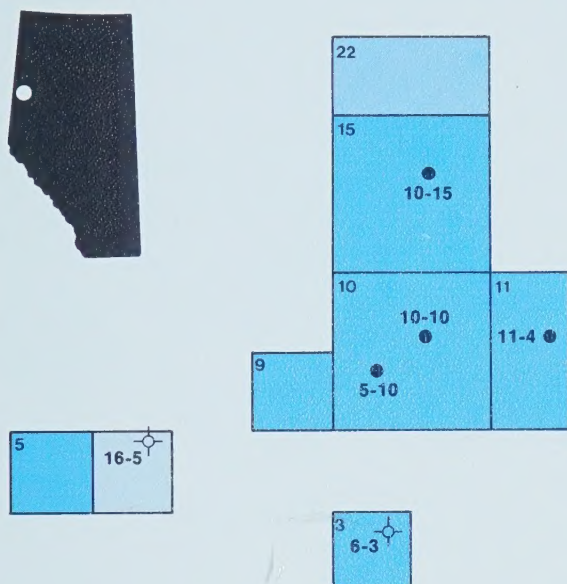
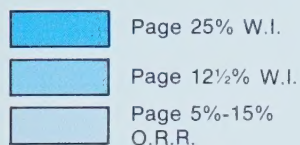
Page has a 25% interest in 5,760 acres and a 40% interest in 640 acres on the Morrin prospect in east central Alberta. During 1974 and 1975, the Company acquired 4,480 acres by lease purchase and pooling of interests. The 7-15 well, drilled in March, 1975, by others at no cost to Page, was a Basal Quartz discovery. An additional 1,920 lease acres were purchased in a May, 1975, land sale. In early 1976 official approval was received to produce gas and oil concurrently from the well. Another well will be drilled this year on this large block of leases to evaluate the Basal Quartz sand and several other prospective zones.

Boundary Lake, Alberta

The Company has a 25% interest in 2,080 acres and 12½% interest in 320 acres of leases on the Boundary Lake prospect in northwestern Alberta. In 1974, Page purchased a 320 acre lease on the prospect and sold a 75% interest to General American Oils Ltd. and Golden Eagle Oil and Gas Limited. The initial well in July, 1975, at 16-5, was a dry hole but it provided information which justified purchasing a 7,200 acre Drilling Reservation by the Company and partners. The 10-10 well drilled in November, 1975, discovered oil in the Boundary Lake zone and earned lease rights in 1,760 acres of the Drilling Reservation and an option on 480 additional acres. Four oil wells had been completed by early April and development drilling around this significant oil discovery is expected to continue through most of 1976. This prospect will significantly increase the Company's production.



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1 MILE

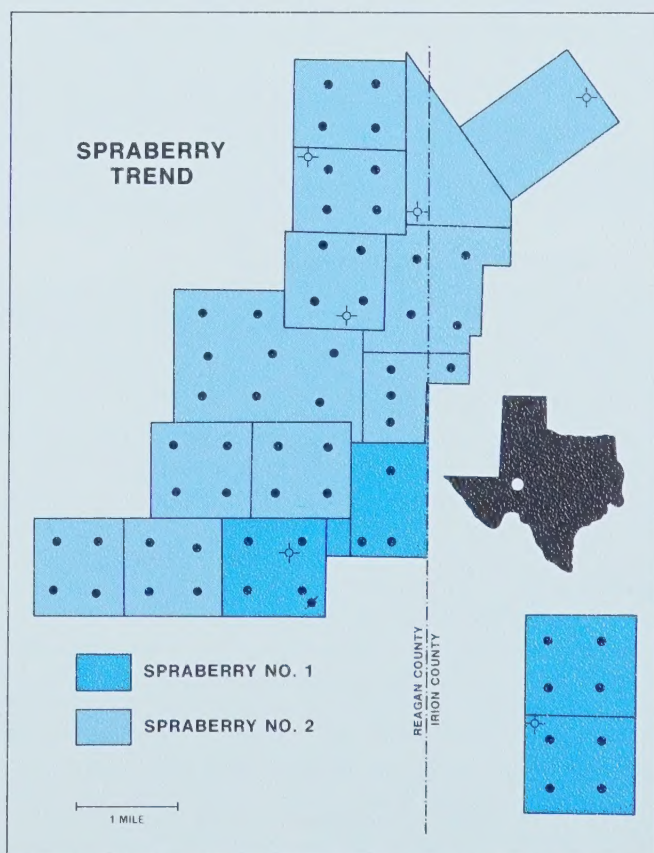
In the Canadian Arctic, industry activity slowed considerably. A 16,523-foot dry hole, Panarctic Chads Creek B-67, was drilled on lands farmed out by Page and others. The Company's Arctic holdings were reduced by 1,385,729 gross acres to 2,035,194 gross acres at year end. Work commitments on most of the Company's Arctic holdings have been met, so no significant expenditures will be necessary before 1981, at which time Page has the option to retain or drop the lands.

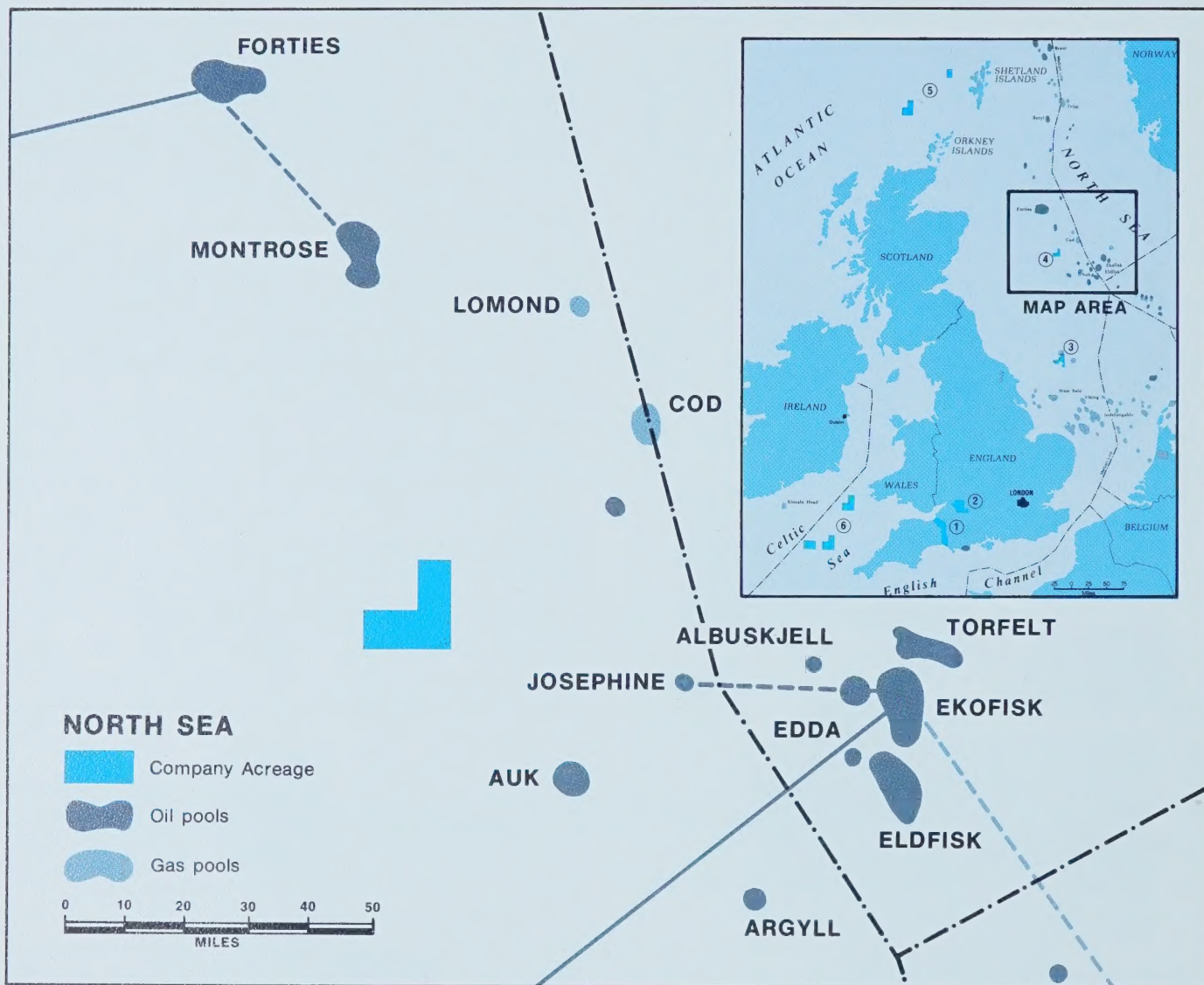
The Company continues to hold a 12½% interest in lease applications covering 236,194 acres. The applications, held since 1970, are awaiting settlement of a federal and state ownership dispute.

Page operates in the U.S. through Page Petroleum Inc., a wholly owned subsidiary with headquarters in Amarillo, Texas. The Company participated in 46 wells in the U.S.; 43 of which were development oil wells drilled in the Spraberry trend.

In the West Block 16 field in Ward County, Texas, a gas well was drilled on leases under which Page owns 21.5 royalty acres. The well potentialled for 44 mmcf/d from the Ellenberger formation. Page has a similar interest in an offsetting section which should also be productive.

Page has a 25% interest in seven wells and a 12½% interest in eight wells in the Spraberry #1 development project drilled in 1973. In the Spraberry #2 development project, Page has a 4.375% working interest in 44 wells. The Company's interest increases to 6% after payout.





UNITED KINGDOM

Page operates in the U.K. and its offshore waters through its wholly-owned subsidiary, Page Petroleum (U.K.) Limited. Areas of interest are shown on the map. Onshore in Wiltshire (2), the Company farmed out a 213,000-acre block to Shell U.K. Exploration and Production Ltd. Shell conducted detailed geophysical surveys and drilled an 11,525-foot exploratory well to earn a 77% interest in the block. This well, the deepest exploratory well in England, was abandoned without encountering commercial quantities of oil or gas. Additional geophysical activity is contemplated for this area in 1976. Page's holdings in Dorset (1) and the Southern North Sea (3) will be dropped in 1976. It is unlikely that further exploratory work will be done West of the

Shetlands (5) and in the Celtic Sea (6) where extensive geophysical surveys have been inconclusive.

In the mid North Sea (4), shown in detail on the map, extensive geophysical surveys indicate two very attractive anomalies. Present plans call for the drilling of a 16,000-foot well during 1976. Because of the extremely high costs of North Sea exploration, Page will very likely farm out its 3.6% working interest.

ITALY

In the Italian Adriatic, a .75% overriding interest is held on one licence containing 14,715 acres. A similar interest on a second licence expired in 1975.

OPERATIONS

LAND

	Working Interest		Royalty Interest
	(Gross Acres)	(Net Acres)	(Gross Acres)
Western Canada	85,613	27,068	42,854
Arctic Islands	1,131,677	76,474	903,517
Alaska	236,194	29,524	—
United States	25,634	4,816	2,560
United Kingdom (Onshore)	137,940	106,188	—
United Kingdom (Offshore)	864,569	71,988	—
Italian Adriatic	—	—	14,715
	<u>2,481,627</u>	<u>316,058</u>	<u>963,646</u>

PRODUCTION

	1975	1974
Oil — Gross barrels	144,186	141,369
Net barrels	81,159	79,956
Gas — Gross mcf	190,563	103,000
Net mcf	132,705	74,000

Increases in oil productive capacity, primarily in the United States, were almost balanced by reductions in market allowables in Alberta. Sales of gas in the United States account for almost all of the increase in gas production in 1975.

RESERVES

	Jan. 1, 1976		Jan. 1, 1975	
	Gross	Net*	Gross	Net*
Oil — (barrels)				
proven developed	2,432,000	1,484,000	2,585,000	1,513,000
probable	1,920,000	1,332,000	797,000	457,000
Total Oil	4,352,000	2,816,000	3,382,000	1,970,000
Gas — (mmcf)				
proven developed	4,739	3,280	3,287	2,374
probable	222	149	1,223	806
Total Gas	4,961	3,429	4,510	3,180

* Net reserves reflect royalties in effect on January 1 of each year.

The Company sold 400,000 barrels of gross proven oil reserves at Rapdan, Saskatchewan in April, 1975. Under Saskatchewan royalty and tax schedules, this property proved to be marginal.



CONSOLIDATED BALANCE SHEETS

December 31, 1975 and 1974

ASSETS

CURRENT ASSETS

Cash	\$ 193,860	\$ 28,252
Marketable securities, at lower of cost or market price (cost \$4,774, 1974 — \$16,326)	2,893	10,709
Accounts receivable	396,104	175,131
Provincial royalty tax credit receivable	162,376	61,000
Inventory, at cost	1,134	71,413
Prepaid expenses	873	6,700

1975

1974

757,240

353,205

PROPERTY, PLANT AND EQUIPMENT — NET (Notes 1 and 3) . . .

3,564,397

2,974,471

OTHER ASSETS

Drilling and exploration deposits	23,461	33,704
Unamortized deferred financing charges (Note 1)	31,740	40,597
Investment in limited partnership (Note 2)	—	—

55,201

74,301

Approved on behalf of the Board,

LAWTON L. CLARK, Director

C. D. GOULD, Director

\$4,376,838

\$3,401,977

See notes to consolidated financial statements.

	<u>1975</u>	<u>1974</u>
LIABILITIES		
CURRENT LIABILITIES		
Bank operating loan, secured (Note 4)	\$ —	\$ 60,000
Accounts payable and accrued liabilities	429,844	123,677
Current maturities of long term debt	135,072	—
	<u>564,916</u>	<u>183,677</u>
 LONG TERM DEBT		
Production and development loans (Note 4)	1,471,233	1,080,300
7% convertible subordinated debentures (Note 5)	375,000	436,000
	<u>1,846,233</u>	<u>1,516,300</u>
Deferred income taxes (Note 1)	<u>300,924</u>	<u>194,370</u>
 SHAREHOLDERS' EQUITY		
Capital stock (Note 8)		
Authorized		
5,000,000 common shares without par value		
Issued		
1,408,486 shares (1,408,486 shares in 1974)	1,279,847	1,279,847
Less: Unpaid subscriptions	<u>155,086</u>	<u>155,086</u>
	1,124,761	1,124,761
Contributed surplus	250,311	250,311
Retained earnings	<u>289,693</u>	<u>132,558</u>
	<u>1,664,765</u>	<u>1,507,630</u>
	<u><u>\$4,376,838</u></u>	<u><u>\$3,401,977</u></u>



CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 1975 and 1974

	1975	1974
INCOME		
Oil and gas sales, net of royalties	\$756,923	\$526,117
Drilling arrangements and other fees	52,186	139,069
Investment and other income	14,785	8,727
	<u>823,894</u>	<u>673,913</u>
EXPENSES		
Production	83,512	49,980
General and administrative	190,426	197,175
Interest (Note 8)	146,315	136,235
Depreciation	33,769	14,216
Depletion	168,701	113,812
Amortization of foreign exploration costs	30,000	28,461
Amortization of deferred financing charges	8,858	15,325
	<u>661,581</u>	<u>555,204</u>
INCOME BEFORE INCOME TAXES	162,313	118,709
INCOME TAXES (NOTE 1)		
Deferred	106,554	104,817
Provincial royalty tax credit	(101,376)	(61,000)
	<u>5,178</u>	<u>43,817</u>
NET INCOME FOR THE YEAR	<u>\$157,135</u>	<u>\$ 74,892</u>
NET INCOME PER SHARE (Note 1)	\$.11	\$.05

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years Ended December 31, 1975 and 1974

	1975	1974
Retained earnings, beginning of year	\$132,558	\$ 57,666
Net income for the year	157,135	74,892
Retained earnings, end of year	<u>\$289,693</u>	<u>\$132,558</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years Ended December 31, 1975 and 1974

	1975	1974
SOURCES OF FUNDS		
Net income	\$ 157,135	\$ 74,892
Charges to income not involving funds:		
Depreciation, depletion and amortization	241,328	171,814
Deferred income taxes	106,554	104,817
Funds generated from operations	505,017	351,523
Sale of interest in properties	283,181	—
Issuance of capital stock	—	69,920
Proceeds of production and development loans	659,405	535,400
Decrease in drilling and exploration deposits	10,243	17,287
Decrease in subscriptions receivable, net	—	7,080
Total source of funds	1,457,846	981,210
APPLICATION OF FUNDS		
Additions to property, plant and equipment	1,105,578	795,850
Repayment and current maturities of long term debt	329,472	—
Redemption of convertible debentures	—	59,000
Total application of funds	1,435,050	854,850
Increase in working capital	22,796	126,360
Working capital (deficiency), beginning of year	17,128	(109,232)
Restatement of current portion of production loan (note 4)	152,400	152,400
Working capital, beginning of year restated	169,528	43,168
Working capital, end of year	\$ 192,324	\$169,528
WORKING CAPITAL CHANGES		
Increase (decrease) in current assets		
Cash	\$ 165,608	\$ (9,937)
Marketable securities	(7,816)	(3,992)
Accounts receivable	220,973	(298,518)
Income taxes recoverable — Provincial	101,376	61,000
Inventories	(70,279)	64,404
Prepaid expenses	(5,827)	(3,118)
	404,035	(190,161)
Increase (decrease) in current liabilities		
Bank operating loan	(60,000)	60,000
Accounts payable and accrued liabilities	306,167	(438,921)
Current portion of long term debt	135,072	62,400
	381,239	(316,521)
Increase in working capital	\$ 22,796	\$126,360

See notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 1975 and 1974

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of Page Petroleum Ltd. and its wholly owned subsidiaries. Where the purchase price of shares of subsidiaries exceeded their net book values, the excess has been allocated to the related assets acquired and additional depreciation has been provided accordingly. All intercompany transactions have been eliminated on consolidation.

(b) Full cost method of accounting

The Company follows the full cost method of accounting for its operations wherein all costs relative to the exploration for and development of oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenditures, carrying charges of non-producing properties, cost of drilling both productive and non-productive wells and administrative expenses related to exploration activities. Proceeds on disposal of properties are ordinarily deducted from accumulated costs without recognition of profit or loss. Exploration and development costs are accumulated in two major cost centres:

1. North America — Canada and the United States
2. Northwestern Europe — United Kingdom and the North Sea

Costs associated with the North American cost centre are depleted using the unit production method based on estimated recoverable North American reserves as determined by independent and company engineers.

Effective January 1, 1974 costs associated with the Northwestern Europe cost centre are being amortized on a straight-line basis at the rate of 20%. Should exploratory efforts be successful, the balance of unamortized exploration costs will be carried forward and combined with subsequent exploration and development costs incurred and will be depleted on the unit of production method. If all of the exploratory rights are surrendered, the balance of the unamortized exploration costs will be charged to income (included in amortization). At December 31, 1975, costs remaining to be amortized amounted to \$104,087.

(c) Depreciation

Depreciation of production equipment is also provided for on the unit of production method. Depreciation of sundry equipment is computed on the diminishing balance method at rates of 20% and 30%. Maintenance and repairs are charged to income as incurred and major renewals and betterments are capitalized.

(d) Income Taxes

The companies follow the tax allocation method of accounting for all timing differences between taxable income and recorded income including differences relative to exploration and development expenditures. Under this method, provisions for deferred income taxes are made currently on the excess of deductions claimed for tax purposes over the related depletion, depreciation and other charges recorded in the accounts on the premise that such taxes will become payable in future years when recorded charges exceed the amounts available for tax purposes.

(e) Net income per share

Net income per share is based on the weighted average number of shares outstanding during the year which for 1975 was 1,408,486 (1974 — 1,405,777). The conversion of the 7% convertible debentures would not be dilutive.

(f) Unamortized deferred financing charges

Deferred financing charges of \$60,704 associated with the issuance of the 7% convertible debentures are being amortized on a straight-line basis over the term of the debenture issue. To December 31, 1975, \$28,964 has been charged to income (1975 — \$8,857; 1974 — \$15,325; 1973 — \$4,782).

2. LIMITED PARTNERSHIP

The Company is the sole general partner of Page 1975 Alberta, a limited partnership formed pursuant to the laws of the Province of Alberta, Canada, for the purpose of exploring for oil and gas. The limited partnership agreement provides that the Company, as general partner, is required to pay all of the tangible costs on initial wells and up to 40% of all other costs incurred on subsequent wells. Income from producing wells and proceeds from the sale of properties will be credited 60% to the limited partners and 40% to the Company, as general partner.

The Company's investment in the limited partnership is reflected on a proportionate consolidation basis.

The Company, through its wholly owned U.S. subsidiary, Page Petroleum Inc., is also the sole general partner of Page 1975 Ltd., a limited partnership formed under the laws of the State of Texas, U.S.A., for the purpose of exploring for oil and gas. The limited partnership agreement provides that all costs associated with the development of the oil and gas properties and the income derived from such properties be divided 65% to the limited partners and 35% to the general partner.

The subsidiary's investment in the limited partnership is reflected on a proportionate consolidation basis.

3. PROPERTY, PLANT AND EQUIPMENT

	<u>Assets, at cost</u>	<u>Accumulated depletion, depreciation and amortization</u>	<u>Net investment</u>
December 31, 1975			
Petroleum and natural gas leases and rights, including exploration and development costs thereon			
North America			
Canada	\$2,555,055	\$387,912	\$2,167,143
United States	930,960	91,360	839,600
Northwestern Europe	164,420	60,333	104,087
	3,650,435	539,605	3,110,830
Production equipment	548,271	130,414	417,857
Sundry	86,795	51,085	35,710
Total December 31, 1975	<u>\$4,285,501</u>	<u>\$721,104</u>	<u>\$3,564,397</u>
December 31, 1974			
Petroleum and natural gas leases and rights, including exploration and development costs thereon			
North America			
Canada	\$2,288,399	\$398,854	\$1,889,545
United States	774,088	15,475	758,613
Northwestern Europe	142,307	28,461	113,846
	3,204,794	442,790	2,762,004
Production equipment	242,057	105,680	136,377
Sundry	85,432	45,122	40,310
Total December 31, 1974	<u>\$3,532,283</u>	<u>\$593,592</u>	<u>\$2,938,691</u>



4. PRODUCTION AND DEVELOPMENT LOANS

The production and development loans are comprised of the following:

	1975	1974
Notes payable	\$ 153,202	\$ —
Less: Estimated portion due within one year	74,072	—
	79,130	—
Development loans	106,203	—
Bank production loan	1,285,900	1,080,300
	<u>\$1,471,233</u>	<u>\$1,080,300</u>

Notes payable represents an advance by an equipment leasing company in the United States for wellhead equipment with repayment to be made within 90 months from the date of advance. The current portion represents the next 12 months of payments due computed from the fixed schedule of repayments which is appended to the equipment leasing agreement.

Development loans represent prepayment for oil and gas received from the purchasers of crude oil and natural gas on a portion of the U.S. production with repayments to be made from production. The oil repayment is to be made at \$2.00 per barrel sold and the gas at 25% of 75% of net gas revenue received.

The bank production loan is secured by a general assignment of accounts receivable and certain specific oil and gas properties. The production loan is repayable from proceeds of production in monthly installments of approximately \$20,700.

As the bank production loan is repayable out of future production proceeds rather than out of current funds, the company has revised its policy of showing the current portion of production loans as a current liability. The current portion of bank production loans has been reclassified as long term debt. The comparative figures for 1974 have been restated to reflect this change in policy with the result that working capital as at January 1, 1974 has been restated to \$43,168 by reclassifying \$152,400, being the then current portion of the bank production loan, as long term debt.

5. 7% CONVERTIBLE SUBORDINATED DEBENTURES DUE AUGUST 1, 1979

The debentures are secured by way of a floating charge in favour of the trustee on all of the Company's assets and undertakings.

The indebtedness evidenced by the debentures is subordinate to the prior payment in full of the senior indebtedness of the Company which at December 31, 1975 was comprised of the bank production loan.

The debentures are convertible into common shares of the Company at the following prices:

\$2.50 per share — August 1, 1973 - August 1, 1977

\$3.25 per share — August 2, 1977 - August 1, 1978

\$4.00 per share — August 2, 1978 - August 1, 1979

Sinking fund payment requirements on the debentures during the next four years are as follows: 1976 — \$125,000; 1977 — \$125,000; 1978 — \$125,000; 1979 — \$125,000. The annual requirements may be satisfied in part or in whole by the conversion of the debentures into common shares. In 1973 and 1974 such conversions amounted to an equivalent of \$64,000 in debentures. Consequently, the first sinking fund requirement in 1976 presently amounts to \$61,000.

6. CAPITAL STOCK

(a) Issued capital stock of the Company consists of the following:

	Number of shares	Stated Value
Balance, December 31, 1973	1,380,718	\$1,209,927
Exercise of stock options for notes	4,168	10,920
Conversion of 7% convertible subordinated debentures	23,600	59,000
Balance, December 31, 1974 and 1975	<u>1,408,486</u>	<u>\$1,279,847</u>

(b) Unpaid subscriptions consist of the following:

	December 31	
	1975	1974
On May 26, 1973 the Company and a senior officer entered into a share purchase agreement for 45,000 shares at \$2.00 per share. If the payments are not made the company's right is limited to cancellation of the unpaid shares. In 1975, the company has extended the repayment terms by one year.		
Balance outstanding	\$ 60,000	\$ 60,000
To enable senior officers to exercise their stock options in 1973 and 1974, the company loaned them the necessary funds on 4% promissory notes repayable in five annual installments. In 1975 the company has extended the repayment terms by one year.		
Balance outstanding	95,086	95,086
	<u>\$155,086</u>	<u>\$155,086</u>

(c) Outstanding stock options and debenture conversion privileges at December 31, 1975.

1. Stock option
70,000 shares (1974 — 32,501 shares) at an exercise price of \$1.52 expiring July 4, 1978.
2. Conversion of 7% convertible subordinated debentures
174,400 shares (1974 — 174,400 shares) at \$2.50 per share expiring August 1, 1977 (note 5).

7. EXECUTIVE REMUNERATION

The total remuneration paid to directors and senior officers of the companies (defined by the Alberta Securities Act as the five highest paid employees) amounted to \$150,474 (1974 — \$139,098).

8. INTEREST EXPENSE

	1975	1974
Interest expense is comprised of:		
Long term debt		
7% convertible subordinated debentures	\$ 30,520	\$ 30,698
Bank production loan	115,795	107,476
	<u>146,315</u>	<u>138,174</u>
Foreign exchange	—	(5,010)
Other	—	3,071
	<u>\$146,315</u>	<u>\$136,235</u>

AUDITORS' REPORT

To the Shareholders
Page Petroleum Ltd.

We have examined the consolidated balance sheets of Page Petroleum Ltd. and subsidiary companies as at December 31, 1975 and 1974 and the consolidated statements of income and retained earnings and changes in financial position for the two years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and 1974 and the results of their operations and changes in their financial position for the two years then ended, in accordance with generally accepted accounting principles applied after giving retroactive effect to the change in presentation of the current portion of the bank production loan as described in note 4 to the financial statements, on a basis consistent with that of the preceding year.

Calgary, Alberta
March 24, 1976

COLLINS BARROW
Chartered Accountants



FIVE YEAR STATISTICAL SUMMARY

FINANCIAL

	1975	1974	1973	1972	1971
INCOME					
Oil and gas sales	\$1,304,288	\$ 882,435	\$ 510,496	\$ 358,233	\$ 266,966
Royalties paid	547,365	356,318	142,764	79,469	26,529
Net oil and gas sales	756,923	526,117	367,732	278,764	240,437
Interest and other income	66,971	147,796	87,646	103,171	5,755
GROSS OPERATING INCOME	823,894	673,913	455,378	381,935	246,192
Production expenses	83,512	49,980	46,605	32,991	25,487
General & administrative (net)	190,426	197,175	197,586	138,349	96,247
Interest expense	146,315	136,235	33,568	13,918	1,722
FUNDS GENERATED from operations	505,017	351,523	177,619	196,677	122,736
Per common share	0.36	0.25	0.13	0.15	0.10
Depreciation, depletion, amortizations	241,328	171,814	102,009	66,321	46,035
Deferred income taxes	106,554	104,817	24,371	45,059	12,832
Provincial royalty tax credit	(101,376)	(61,000)	—	—	—
NET INCOME	157,135	74,892	51,239	85,297	63,860
Per share	0.11	0.05	0.04	0.07	0.05
BALANCE SHEET					
Working capital (deficiency) (1)	192,324	169,528	(19,232)	134,586	95,269
Property and equipment — net (2)	3,564,397	2,974,471	2,335,110	1,193,964	1,051,669
Long term debt	1,846,233	1,516,300	977,500	183,200	53,965
Deferred income taxes	300,924	194,370	89,553	65,182	20,123
Shareholders' equity	1,664,765	1,507,630	1,355,738	1,213,459	1,121,413
Common shares outstanding	1,408,486	1,408,486	1,380,718	1,272,053	1,267,557

(1) after restatement of current portion of production loan

(2) includes investment in Limited Partnerships

(3) restated for retroactive adjustment to deferred income taxes

MANAGEMENT'S ANALYSIS OF THE STATISTICAL SUMMARY:

Consolidated net income for 1975 was \$157,135 or 11 cents per common share, an increase of 110% from the comparative 1974 income of \$74,892, or five cents per common share.

Gross income in 1975 was up 22% to \$823,894 from \$673,913 last year as a result of improved product prices and the addition of new properties in Texas, U.S.A. Expenses rose by 19% from \$555,204 in 1974 to \$661,581 this year owing to higher production expenses and provision for depreciation, depletion and amortizations.

Funds provided from operations amounted to \$505,017 or 36 cents per share, an increase of 44% from the \$351,523 (25 cents per share) generated last year. The funds derived from operations and the sale of interest in properties together with production and development loans enabled your Company to cover current maturities of debt and add \$1,105,578 to property, plant and equipment.

Working capital increased by \$22,796 during the year to \$192,324 from \$169,528 at the end of 1974 (see also Auditors' Report).

OPERATIONS

	1975	1974	1973	1972	1971
LAND HOLDINGS (working interest)					
Gross Acreage Held	2,482,000	4,150,000	3,896,000	2,957,000	2,487,000
North America — Net	138,000	315,000	315,000	251,000	294,000
Overseas — Net	178,000	307,000	307,000	307,000	280,000
TOTAL NET ACREAGE	316,000	622,000	622,000	558,000	574,000
PRODUCTION — gross (before royalties)					
Crude oil — barrels	144,186	141,369	142,678	116,331	119,276
Average daily, barrels	395	387	391	319	327
Natural gas — mcf	190,563	103,000	82,000	87,000	89,000
Average daily, mcf	522	282	225	238	244
DRILLING ACTIVITY					
Gross wells drilled	60	19	46	19	14
Net wells drilled	6.6	3.8	6.1	3.1	2.3
Productive	3.3	0.8	2.5	1.1	0.1
Dry	3.3	3.0	3.6	2.0	2.2
GROSS RESERVES — proven and probable					
Crude oil — thousand barrels	4,352	3,382	3,522	2,550	1,873
Natural gas — mmcf	4,961	4,510	3,273	1,914	1,104

Land holdings in 1975 were substantially reduced in the Canadian Arctic and in foreign areas. There was a small increase in land held in Western Canada and in the U.S.

Increases in productive capacity during the year were almost balanced by reduction in market allowables in Alberta.

Drilling activity in the Spraberry Trend in West Texas accounted for most of the increase in wells drilled in 1975.

Gross Reserves, which reflect oil found, increased by almost one million barrels in 1975. Considerable development drilling will be required to put these new reserves on production.



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